



**Testimony of**

**Stephen E. Ewing  
President & Chief Operating Officer  
DTE Energy Gas  
Detroit, Michigan**

**Vice Chairman  
American Gas Association  
Washington, D.C.**

**On Behalf of the American Gas Association**

**U.S. House of Representatives Energy and Commerce Committee  
Energy and Air Quality Subcommittee**

**Hearing on Natural Gas And Heating Oil For American Homes**

**November 2, 2005**

**Darrell Henry  
American Gas Association  
400 North Capitol Street, N.W.  
Washington, D.C. 20001  
(202) 824-7219  
dhenry@aga.org**

**House Energy and Commerce Committee  
Energy and Air Quality Subcommittee  
November 2, 2005**

**Statement of Stephen E. Ewing  
Vice Chairman, American Gas Association**

**Executive Summary**

The American Gas Association (AGA) is the national trade association of America's local natural gas utilities. Approximately two hundred AGA member companies acquire gas supply for, and distribute it to, their residential and commercial customers. Energy is the lifeblood of our economy, and natural gas supplies about one-fourth of this country's energy. Natural gas is America's most popular home-heating fuel, heating 52% of America's homes.

By law local gas utilities cannot earn a profit on the cost of natural gas that they purchase for their customers. Instead, they are required to pass through to their customers what they pay for the commodity without any mark-up. As a result of the precarious balance between supply and demand, the Department of Energy's Energy Information Administration has recently projected that the nation's households will see their winter natural gas bills rise somewhere between 30% and 67%, depending principally upon location and winter weather. The natural gas prices projected by all observers for this winter, especially in the wake of Hurricanes Katrina and Rita, will be a tremendous burden upon America's natural gas consumers.

Natural gas utilities are a lifeline business infused with a mandate to serve their customers safely and reliably, and they do not fail in that endeavor. Natural gas utilities build a supply portfolio that often is founded upon natural gas injected into storage during the summer months, well in advance of winter cold, when the prices are often lower. A portfolio of natural gas supply also includes contracts with varying terms and prices. As a whole, the natural gas utility industry increasingly hedges its supply portfolio in an attempt to promote some degree of price stability in a market that is highly volatile.

Natural gas distribution utilities also help their customers help themselves. An essential element in that endeavor is customer education. Many utilities administer, sponsor, and promote programs to augment the Low Income Home Energy Assistance Program (LIHEAP), and in 2004 utility programs generated \$1.7 billion in low-income customer assistance. Types of utility programs include:

- Discounts – many utilities offer reduced rates for low-income households. In fiscal year (FY) 2004, these discounts accounted for 78 percent of total utility assistance.
- Waivers – some utilities will waive a charge or a portion of a bill, such as customer charges, reconnection fees, late charges, deposit fees, etc., to qualified customers. In FY 2004, these programs accounted for eight percent of utility assistance.

- Arrearage forgiveness -- in some instances utilities will forgive a portion, sometimes even all, of the past due amount of a qualified customer. Arrearage forgiveness accounted for three percent of utility assistance in FY 2004.
- Energy Efficiency/Weatherization programs – a number of utilities provide funding for home improvements and/or more efficient appliances that will reduce energy consumption on a long-term basis. Weatherization programs accounted for 11 percent of total utility assistance in FY 2004.

Utility-sponsored programs supplement, but in no way supplant, the need for LIHEAP funding. AGA is pleased to see that the committee's budget reconciliation bill includes an additional \$1 billion in LIHEAP assistance. This would raise total funding for LIHEAP above \$3.0 billion and go a long way in helping low and fixed-income consumers. We do, however, urge the Congress to fund LIHEAP at the fully authorized level of \$5.1 billion. At present, less than 20 percent of those eligible for LIHEAP aid receive it. With impending huge increases in customers' natural gas bills, the situation will only become more dire.

All of these tools, as well as others, will assist consumers with the steep increases they are likely to see this winter. But, as a nation, we cannot continue to address the issue of increasing natural gas prices by pushing only for demand measures targeted at the home heating consumer. We must instead take steps to diversify the fuel portfolio for electric generation. And, as AGA has long urged, the nation must take decisive action to increase natural gas supply. Without these measures, the upward spiral of prices will continue, and the nation will, winter after winter, face the same scenario, where one fall hurricane or one winter cold snap can send natural gas prices spiraling.

## TESTIMONY

Thank you for the opportunity to testify before this Committee on behalf of the American Gas Association and the 56 million consumers served by its members. My name is Stephen Ewing, and I am President and Chief Operating Officer of DTE Energy Gas, a natural gas utility in Michigan that provides service to more than one million customers. I am also the Vice Chairman of the American Gas Association (AGA), which represents 195 local energy utility companies that deliver natural gas throughout the United States.

Energy is the lifeblood of our economy, and natural gas supplies about one-fourth of this country's energy. Natural gas also is America's most popular home-heating fuel, heating 52% of America's homes. As the purveyor of this home-heating fuel, natural gas utilities are a lifeline business – it is a responsibility they take seriously and, as you will see, it guides their actions.

Given the recent run up in natural gas prices in the wake of the warmer-than-normal summer and Hurricanes Katrina and Rita, this winter natural gas customers will likely face significantly higher energy bills. Local natural gas utilities as a whole have been consumed by planning for the winter heating season and seeking means to ease the burden that high gas prices will place on consumers.

Accordingly, AGA's focus is to pursue policies that will mitigate the high cost of natural gas for America's consumers this winter and that will, in the longer term, increase supply. It is distressing to consider that the \$13 prices projected in the American Gas Foundation study, "Outlook to 2020," published in February of this year, have already

been exceeded over the last few weeks. That study concluded that if policy makers and industry decision makers did not immediately address critical issues that will have a significant impact on the availability and price of natural gas (such as diversifying electric generation mix and increasing access to domestic supplies) then prices could reach \$13 by 2020. No one imagined that a mere seven months later those prices would become a reality. Today's higher natural gas prices will, of necessity, lead to much higher bills for consumers.

Higher bills are harmful to consumers, harmful to the economy, and harmful to the natural gas utilities that AGA represents. More than 63 million Americans rely upon natural gas to heat their homes. Unexpectedly high prices are a serious drain on their pocketbooks. High prices also put the nation's industrial sector at a distinct competitive disadvantage, cause plant closings, and cause workers to lose their jobs.

Most observers readily understand why higher prices are harmful for consumers and the economy, but they fail to apprehend that they are also harmful for natural gas utilities. By law and regulation, natural gas utilities in almost all circumstances are not permitted to mark-up the price of natural gas that they acquire for their consumers and must instead sell the gas to consumers at exactly the same price they pay for it. This process is overseen by state public service commissions and is subject to review and audit. Rather, natural gas utilities earn their income by delivering natural to their customers. Under the most basic principles of economics, today's higher natural gas prices mean that customers will consume less natural gas. As a consequence, natural gas utilities will deliver less natural gas, thus diminishing the revenues paid to them for services

performed for their customers. As a result, and contrary to the belief of so many, the interests of consumers and of natural gas utilities are aligned on this issue. Both want lower natural gas prices and reliable natural gas supply.

Recently the Department of Energy's Energy Information Administration (EIA) issued its *Short-Term Energy Outlook and Winter Fuels Outlook* (October 12, 2005). AGA does not issue its own natural gas price projections. As a result, I will be discussing in my testimony the prices projected by EIA. As has been widely reported, EIA projects that the average natural gas household's winter fuel expenditures will increase by 47.6% over last year.

It is important to remember, as EIA carefully notes, that the EIA projections are based on modeling results that depend on assumptions regarding several critical variables:

- (1) A significant assumption is that there will be a "medium recovery" of energy operations in the Gulf of Mexico following Hurricanes Katrina and Rita. EIA assumes neither a best-case nor worst-case scenario in projecting the recovery of natural gas production, gas processing, and pipeline facilities in the Gulf. What if this assumption turns out to be off the mark?
- (2) Another significant assumption is that the winter weather will be normal. A "normal" winter means weather somewhat colder than most parts of the United States have seen in recent years. What if we do not have a normal winter? EIA projects that a ten-percent-warmer-than-normal winter would cause average residential natural gas prices to rise 29.8 percent, while a ten percent colder than normal winter would lead to a 67.3 percent price increase. This is quite a price range, entirely without regard to

best-case or worst-case Gulf of Mexico recovery scenarios.

AGA and its members are, on a national basis, facing significantly higher natural gas prices in the best of cases and extraordinarily higher prices in the worst of cases.

What are natural gas distribution utilities doing to help their customers this winter? Natural gas utilities are doing what they always do – whatever they must to serve their customers reliably this winter. Gas utilities are pursuing purchasing strategies that, while tried and true, have also evolved over the past five years with ever-rising natural gas prices. It is a building-block process that begins months ahead of the winter heating season as utilities begin purchasing natural gas during the spring and summer months and putting it into underground storage. Usually summer and early fall natural gas prices are lower than winter prices, and purchasing storage gas in the summer and early fall provides a natural, physical hedge against higher prices in the winter.

In addition to the basic building block of underground storage, natural gas utilities layer other supply and transportation services. Companies build and manage a portfolio of supply, storage, and transportation services, which may include a diverse set of contractual arrangements to meet anticipated peak-day and peak-month gas requirements.

Layered increasingly on top of that are financial tools to hedge natural gas costs and, hence, promote a greater degree of price stability. Financial hedging tools include options, fixed-price contracts, swaps, futures, as well as more exotic instruments. These tools help in reducing price volatility. Although natural gas distribution utilities have grown increasingly savvy in the use of these tools over the past few years, they still do

not guarantee lower natural gas prices. They are, rather, designed to promote price stability. Lower prices and price stability can sometimes be competing objectives.

Natural gas distribution utilities must also help their customers to help themselves. To this end, customer education is critical for a number of reasons:

First, customers need to be aware of higher natural gas prices in order to have an opportunity to take action today to reduce this winter's bills. That is why the American Gas Association and its member gas distribution utilities are working urgently to communicate to customers regarding the higher winter bills that they can anticipate and to offer consumers some tools for protecting themselves.

One important tool is the use of budget (or levelized) billing plans that allow utility customers to spread out their natural gas bills so that they pay about the same amount each month year round. Consumers using these plans are charged the same total bill each month for 11 months, regardless of weather variations and regardless of unpredictable commodity prices. A reconciling adjustment is made during the twelfth month to reflect differences in actual versus projected costs and actual versus projected consumption.

Another important tool is assisting customers to increase their homes' energy efficiency and to conserve energy better. Energy efficiency and conservation can do much to reduce individual energy consumption and, therefore, lower customer bills. Indeed, one recent study indicated that aggressive energy efficiency and conservation measures could reduce



natural gas prices by up to 25%.<sup>1</sup> While analysts may quarrel with the likely impact of an increased application of energy efficiency measures on natural gas prices, AGA and its members know that appropriate customer energy-efficiency measures can benefit their customers. Moreover, these benefits will be almost immediate in today's high-priced environment. In contrast, other measures to ameliorate the impact of natural gas prices require a considerably longer time frame.

AGA would like to thank the Committee for its work in encouraging greater consumer energy efficiency. AGA and its member companies will continue to encourage improved customer energy efficiency and conservation to help reduce the sting of higher natural gas prices.

Another significant utility effort to help customers struggling to pay high natural gas bills is utility programs that provide low-income customer assistance. Each year utility programs and rate structures provide about \$1.7 billion in low-income customer assistance.<sup>2</sup> These programs are designed to augment the federal government's Low Income Home Energy Assistance Program (LIHEAP), which in recent years has been funded at approximately \$2 billion per year. Much of the utility low-income assistance comes in the form of rate assistance, which may involve reduced rates for low-income households, waivers of fees, and arrearage forgiveness. Other utility programs include

---

<sup>1</sup> *Impacts of Energy Efficiency and Renewable Energy on Natural Gas Markets: Updated and Expanded Analysis*, R. Neal Elliott and Anna Monis Shipley, American Council for an Energy-Efficient Economy, Report No. E052 (April 2005) <http://aceee.org/pubs/e052full.pdf> (adoption of a portfolio of energy efficiency measures could reduce natural gas prices by 25% in the first year).

<sup>2</sup> *The Growing Need to Help Low-Income Energy Consumers: Government, Charitable, and Utility Programs*, American Gas Association Energy Analysis, EA 2005-3, (September 14, 2005).

energy efficiency and weatherization programs that help reduce customer natural gas consumption.

What natural gas utilities seek to achieve from all of these approaches is to flatten out the highest peaks of natural gas prices and dampen somewhat the impact on customers of high and volatile natural gas prices. In neither the short run nor the long term, however, can these tools mask the impact of higher natural gas prices on consumers. Instead, other actions are necessary. They were necessary five years ago, they were necessary last year, and, even with the recent enactment of the Energy Policy Act of 2005, they remain necessary today.

Accordingly, AGA recommends the following actions to address both ends of the delivery chain – supply and demand.

**First and foremost, LIHEAP funding should be increased to the fully authorized \$5.1 billion level.** We commend the committee for including an additional \$1.0 billion for LIHEAP in its budget reconciliation package. This would bring total LIHEAP funding above \$3.0 billion. Without an increase in funding, the “purchasing power” of LIHEAP will be reduced by up to 50 % this winter. The expected rise in home energy costs hits low- and fixed-income individuals particularly hard. The National Energy Assistance Directors' Association (NEADA) just released its second annual survey of the effect of rising energy costs on poor families. Among the study's findings: 32 percent of families in the survey sacrificed medical care; 24 percent failed to make a rent or mortgage payment; 20 percent went without food for at least a day; and 44 percent said

that they skipped paying or paid less than their full home energy bill in the past year. Furthermore, the number of households receiving LIHEAP assistance has increased from about 4.2 million in FY 2002 to more than 5 million this year, the highest level in a decade. LIHEAP applications are expected to increase significantly this winter. The nation should help customers who will be hardest hit by energy price increases for home heating and cooling.

**Natural gas supplies must be increased.** AGA supports policies that would increase the supply of natural gas in environmentally responsible ways. Demand responses can only go so far toward the goal of lower natural gas prices. And while a demand response will help us through this winter, in the long-term supplies of natural gas must increase if we are to reduce customers' bills meaningfully. Accordingly, Congress should support appropriate incentives and legislative changes that would increase the production of natural gas. These priorities have not changed over the last several years as AGA has testified before Congress. Nevertheless, I would like to briefly reiterate a few of the most important access issues:

- Opening restricted off-shore areas for the environmentally responsible production of natural gas;
- Providing adequate funding and staff for the federal offices principally involved in the issuance of permits for natural gas and production;
- Further expanding and expediting procedures for producers to access lands and production areas; and
- Taking steps to increase the U.S. capacity to receive liquid natural gas (LNG) shipments.

**Energy efficiency programs should be supported that encourage the most efficient utilization of all energy forms through the matching of each energy task with the most appropriate fuel** (e.g., running computers with electricity and heating homes and businesses with natural gas). Additionally, incentives should be incorporated for more efficient energy use through tax credits for the purchase of energy-efficient appliances and the construction of energy-efficient homes and commercial buildings. Congress should further accelerate the effective date of energy-efficiency tax incentives in the Energy Policy Act and fund energy awareness programs at the Department of Energy.

**Fuel diversity should be the goal for electric generation facilities.** In recent years, as a result of its lesser impact on the environment, natural gas has been the dominant fuel for new electric generation facilities. Electric generation remains the fastest growing sector of natural gas demand. This increase in demand has occurred while production has remained stable, thus driving prices higher. AGA supports the direct use of natural gas and encourages electric generators to seek greater fuel diversity, such as clean coal, nuclear, alternative and renewable fuels. AGA urges Congress to provide incentives for, and to reduce regulatory barriers to, electric generation facilities that use clean coal, nuclear energy and alternative and renewable fuels.

**Consumer education should be the goal not just of natural gas distribution utilities but of all policy makers.** AGA and its members will continue our efforts to educate our customers. But we also urge Congress to educate our customers—their constituents—so that every avenue to the customer is blanketed with information that will ease the

potential cost burden that will be imposed this winter by natural gas bills.

### **CONCLUSION**

For the past five years AGA members and their customers have been operating in challenging times – this winter will be no exception. While natural gas customers can do their part by embracing energy efficiency solutions, policy makers in Washington must do their part to balance supply and demand.